How blockchain is disrupting the insurance industry for the better

By Bob Cummings

The insurance industry will still have obstacles to overcome, but blockchain’s ability to provide complete accountability, transparency and superior security will help insurers save time and money, as well as improve customer satisfaction.

The banking and insurance industries are embracing blockchain with open arms. According to the SAP Digital Transformation Executive Study, executives in banking and insurance plan to more than double their investments in blockchain by 2019. The insurance industry in particular understands that it must evolve to stay competitive, which means streamlining processes and meeting the demands of digitally savvy customers. Blockchain technology can help insurance companies overcome today’s challenges and create transparent operations built on trust and stability. In order to fully understand the current insurance industry landscape, we will outline some of the challenges organizations face and how blockchain can mitigate these issues below.

Challenges within the insurance industry

Insurance companies face a number of challenges as it relates to complex compliance issues, limited growth in mature markets, fraudulent claims activity, third party payment transactions and handling huge amounts of data. With the onset of connected devices and the ever-growing amount of data generated by the Internet of Things (IoT), insurers have to sift through the data that matters in order to deliver tailored services and products. Insurers must also evolve from a focus on purely financial-loss compensation to a mode of physical-risk prevention in order to compete effectively with disruptors in the space. This can only be achieved if they have visibility into their data.

Additionally, the move to digital transactions has left many insurers wondering how to streamline processes and secure sensitive information. The sheer cost and security of moving money digitally is a growing concern. In fact, the report from McKinsey & Company, “Blockchain in Insurance – Opportunity or Threat?”, states that five to 10 percent of all insurance claims are fraudulent, which makes securing data even more crucial for insurers.

Blockchain to the rescue

While blockchain might not be the end-all-be-all to problems faced by insurers, it does provide foundational technology that promotes trust, transparency and stability. Blockchain is in the early stages of adoption, but there are already a handful of ways that insurers are leveraging the technology to mitigate the abovementioned challenges:

• Security: Through its use of public ledger, blockchain can potentially eliminate suspicious and duplicate transactions by logging each transaction. Through its decentralized digital repository, it can verify the authenticity of customers, policies
and transactions by providing historical records. This makes it more difficult for hackers to corrupt and steal files.

• Big data: More connected devices are being used every day, which is causing a spike in the amount of data insurance companies need to handle. Blockchain can properly manage, share and monetize large amounts of data. The benefit is that the technology can store static records and/or data without central coordination and the data can be viewed by all parties. Data is registered on the blockchain by creating a digital fingerprint using a date and time stamp which provides both security and transparency. Streamlined data can also make risk assessment timelier and more accurate.

• Third-party transactions: Blockchain can handle the increase in third-party transactions and claims made through personal digital devices. Blockchain helps reduce administrative costs through automated verification of claims/payments data from third parties. Now, insurance companies can quickly view past claims transactions registered on blockchain for easy reference. This promotes higher degrees of trust and loyalty between the insurer and customer.

• Smart contracts: Personalized contracts are beginning to emerge in the insurance industry. These contracts connect real-time information from multiple systems across physical documents and activities which trigger processes like claims, payments and reimbursements faster and with greater accuracy. This saves the insurance company time and money while providing the customer with a better experience.

• Reinsurance: Within the reinsurance space, blockchain can provide accurate reserve calculations based on current contracts. This helps property and casualty (P&C) insurers who need to know how much money is available as they pay claims. Blockchain can ensure that they are rebalancing their exposures against specific risks. Insurance companies can now feel confident in their daily business operations.

It’s positive to see insurance companies starting to embrace the benefits of blockchain. Organizations such as Swiss Re, Aegon, Allianz, Munich Re and Zurich have launched the Blockchain Insurance Industry Initiative, B3i, which aims to explore the potential of distributed ledger technologies to better serve clients through faster, more convenient and secure services.

A report from EY, “Blockchain in insurance: applications and pursing a path to adoption,” states “the insurance industry must make investments now to be in a position to take advantage of efficiencies and opportunities blockchain technology can deliver long term.” The insurance industry will still have obstacles to overcome, but blockchain’s ability to provide complete accountability, transparency and superior security will help insurers save time and money, as well as improve customer satisfaction. As higher levels of trust are established between the insurer and the insured, stronger relationships will be built as well.